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FM AMEMBASSY MAPUTO
TO RUEHC/SECSTATE WASHDC 5489
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHLMC/MILLENNIUM CHALLENGE CORP 0050
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

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SIPDIS

SIPDIS

AF/S FOR HTREGER AND JMALONEY
JOHANNESBURG FSC FOR RDONOVAN
JOHANNESBURG TDA FOR DSHUSTER
USDOC FOR RTELCHIN
MCC FOR SGAULL
USAID FOR AA/AFR AND AFR/SA

E.O. 12958: N/A

TAGS: [ECON](#) [EAID](#) [EINV](#) [ETRD](#) [MZ](#)

SUBJECT: MOZAMBIQUE: MAY ECONOMIC DIGEST

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¶1. This is a brief summary of significant economic developments in Mozambique during May 2006. We provide it as a supplement to our other reporting. The items discussed are:

- Mozambique Misses First Quarter Revenue Targets
- Donors Pledge USD 595 Million for 2007 State Budget
- USAID Supports Mozambique's Tourism Sector
- Indian Government Extends Line of Credit
- Rehabilitating Mozambican Airports
- Mozambique Leaf Tobacco Opens Processing Plant in Tete

Mozambique Misses First Quarter Revenue Targets

¶2. On May 12 Mozambican Minister of Finance, Manuel Chang, announced that revenue collected by the Mozambican government in the first quarter of 2006 fell short of its target. Chang stated that Q1 revenue amounted to 5,166.3 billion meticaais (approximately USD 194 million), only 94.6 percent of the target for the quarter. Of the total sum, 4,580.8 billion meticaais (approximately USD 172 million) was derived from tax revenue, which represents 98.5 percent of the first quarter target. Despite the shortfall, Chang was optimistic that corrective measures could be taken to ensure the deficit would be made up later in the year.

Donors Pledge USD 595 Million for 2007 State Budget

¶3. On May 11 the 18 donors and international agencies, known collectively as the "Program Aid Partners" announced that they would grant USD 595 million in direct support for Mozambique's 2007 State Budget. This figure amounts to a real increase of USD 44 million over contributions made for the 2006 budget. The African Development Bank joined the donor group this year, pledging USD 90 million in direct budgetary support -- USD 60 million for this year and USD 30 million for 2007.

¶4. Of the total funds, USD 372 million will go directly to the State Budget and has not been assigned to any project or sector. The remaining funds are targeted at specific sectors, as follows -- USD 56 million for education, USD 38

million for agricultural development, USD 89 million for health, USD 36 million for roads, and USD 5 million for water supply. According to Mozambique's Minister of Finance, Manuel Chang, 48 percent of the current State Budget comes from direct foreign aid.

USAID Supports Mozambique's Tourism Sector

15. The US Agency for International Development (USAID) has granted Mozambique USD 5.5 million for the development of tourism in the northern Mozambican provinces of Nampula, Cabo Delgado and Niassa. The three-year project was launched in Pemba, the Cabo Delgado provincial capital, by Tourism Minister Fernando Sumbana and USAID Director Jay Knott. The program seeks to use tourism as a tool for environmental preservation and for overall economic development in Mozambique, as well as to support the GRM's vision of making Mozambique "the most vibrant tourist destination in Africa." The project is expected to attract private sector investment, while also contributing to professional training and improvement of tourism sector policies. (Note: According to figures released on May 12 by the Mozambican Tourism Promotion Board, the Mozambican tourism sector is expected to net more than USD 120 million in 2006. Revenue for 2005 reached approximately USD 100 million, accounting for 2.4 percent of the country's gross domestic product.)

Indian Government Offers Line of Credit

16. On May 22 the Indian government pledged to open a line of credit, in the near future, worth USD 35 million. The announcement was made by the outgoing Indian High Commissioner to Mozambique, Upendra Baro, during his farewell meeting with President Guebuza. A Mozambican delegation is to visit India to discuss the mechanisms for

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an agreement. Baro said that during his two and a half year tenure in Mozambique the Indian and Mozambican governments had cooperated closely on the transportation issues, with India disbursing USD 20 million to the railway sector.

Rehabilitating Mozambican Airports

17. The President of Mozambican Airport Company (ADM), Dionisio Cambaza, has announced plans to invest USD 21 million over the next three years on the refurbishing and modernization of the airports in Beira, Quelimane and Tete. The rehabilitation project will be financed by the Mozambican government and Danish cooperation (DANIDA), according to Cambaza. The project includes repaving runways and installing luminous signaling systems at the airports in Beira and Quelimane, as well as the installation of an airborne instrument landing system (ILS), firefighting vehicles, generators, and communication and safety equipment.

18. Cambaza also stated that ADM had recently selected seven bids for the refurbishment and extension of Maputo International Airport. Though the names of the bidders have not been made public, Cambaza told the Embassy Commercial Specialist during a May 24 meeting that bids had come from Chinese, Portuguese, Brazilian and French companies. The final selection is expected in late September or early October, with construction targeted to begin in January 2007. The Maputo airport project will include modernization of the airport, construction of a VIP pavilion, a new control tower, repair and extension of the cargo terminal, as well as refurbishing of access roads.

Mozambique Leaf Tobacco Opens Processing Plant in Tete;
Alliance One Announced Its Exit

¶9. On May 7 Mozambican President Armando Guebuza inaugurated the country's first tobacco processing plant, located in Mozambique's Tete province. The plant, built by Mozambique Leaf Tobacco, a subsidiary of the US-based Universal Leaf Africa Company, hopes to process and export 24,000 tons of tobacco this year (estimated export value of USD 50 million). Its installed capacity is 50,000 tons of tobacco yearly. The unit was built at an estimated cost of USD 55 million.

¶10. At the same time, another US company and the other dominant player in the tobacco industry here, Alliance One, announced it was pulling out of Mozambique as a result of losing its buying concession in the tobacco-rich district of Chifunde, in Tete province. Alliance One has filed a political risk insurance claim for the closing of its Mozambique operations.

¶11. Note: Mozambique is second only to Malawi as Africa's largest Burley variety tobacco producer. Tobacco, together with cotton and cashew nuts, is one of Mozambique's main agricultural export products and sources of foreign currency.

LA LIME